

Original Information, signed by the informant in the informant's true name, as soon as practicable after the submission of the information. If other than the informant's true name was used in furnishing the information, satisfactory proof of identity as that of the informant must be included with the claim for reward.

(g) *Effective/applicability date.* Paragraph (a) is effective on February 22, 2012. This section is applicable with respect to rewards paid after January 29, 1997, except the rules of paragraph (a) of this section apply with respect to rewards and awards paid after February 22, 2012.

[T.D. 8780, 63 FR 44778, Aug. 21, 1998, as amended by T.D. 9580, 77 FR 10371, Feb. 22, 2012]

§ 301.7624-1 Reimbursement to State and local law enforcement agencies.

(a) *In general.* The Internal Revenue Service may reimburse a State or local law enforcement agency for expenses, such as salaries, overtime pay, per diem, and similar reasonable expenses, incurred in an investigation in which information is furnished to the Service that substantially contributes to the recovery of Federal taxes imposed with respect to illegal drug or related money laundering activities. The amount of reimbursement that may be paid shall not exceed the limits specified in paragraphs (e)(2) and (e)(3) of this section.

(b) *Information that substantially contributes to recovery of taxes—(1) Definition.* The Service generally will consider that information furnished by a State or local law enforcement agency substantially contributed to the recovery of taxes with respect to illegal drug or related money laundering activities provided the information was not already in the possession of the Service at the time the information is furnished by the State or local law enforcement agency, and

(i) Concerns a taxpayer who is not under examination or investigation by the Service at the time the information is furnished or has not already been selected by the Service for examination or investigation in the near future, or

(ii) Concerns a taxpayer who is under examination or has been selected for examination at the time the information is furnished but the information furnished would not normally have been discovered in the course of an ordinary investigation or examination by the Service. Also, information will generally be considered as substantially contributing to the recovery of taxes if it leads to the discovery of hidden assets owned by the taxpayer which are used to satisfy the taxpayer's assessed but otherwise uncollectible Federal tax liability with respect to illegal drug or related money laundering activities.

For purposes of this paragraph (b), information includes, but is not limited to, tax years of violations, aliases, addresses, social security numbers and/or employer identification numbers, financial data (bank accounts, assets, etc.) and their location, and any documentation that substantiates allegations concerning tax liability (books and records) and its location.

(2) *Examples:*

Example 1. A local police department's narcotics division has been gathering information on a suspected local drug dealer for approximately six months. Because this person is very cautious when handling narcotics, the local police have been unsuccessful in catching this person in possession of drugs. Rather than drop the case, the narcotics detective turns over to the local IRS Criminal Investigation Division (CID) office information concerning this person. At the time the information is furnished, the Service is unaware of this person's suspected involvement in drugs and has no reason to suspect that this person's Federal income tax returns are incorrect. Upon examination of this person's returns for three open years, the Service determines that additional Federal income taxes and civil penalties of approximately \$20,000 per year are due because of unreported income from drug dealing. Because the taxpayer was not under examination and was not reasonably anticipated to have been examined prior to receipt of the information, the Service will consider that the information furnished by the local police department substantially contributed to the recovery of approximately \$60,000 in taxes with respect to illegal drug activities.

Example 2. Assume the same facts as example 1 except that at the time the information is turned over to the Service, the Service was already aware of the extent of this person's involvement in drug dealing, either through information developed in the course

of examinations of other taxpayers or through information received from other sources, and had already selected this person's returns for examination although the person had not yet been contacted by the Service. In this case, the information provided by the local police department did not substantially contribute to the recovery of taxes from this person because the information was already known to the Service.

Example 3. A state or local police officer is conducting ordinary traffic patrol. The officer stops a vehicle for speeding and reckless driving. The officer recognizes the driver as a known narcotics dealer. In the vehicle is a brief case containing \$75,000 in cash, but no trace of narcotics is found. The driver claims the cash was won in a high stakes poker game. The officer arrests the driver for traffic violations and takes the briefcase into custody for safe keeping. The local police department cannot seize the money because they cannot tie it to a narcotics transaction. Instead, they immediately inform the local CID office of their find. At the time this information is furnished to the Service, there is an unpaid assessed liability of \$300,000 in Federal taxes and penalties owed by the dealer with respect to illegal drug activities that the Service has been unable to collect. Therefore, the Service immediately seizes the \$75,000 in cash in partial payment of the tax liability. The Service will consider that the information furnished by the police department substantially contributed to the recovery of \$75,000 in taxes with respect to drug related activities.

Example 4. Through information furnished by a reliable informant, a local police department learns that a known racketeer and suspected drug dealer maintains a second set of books and records in a safe at home. The local police obtain a search warrant and find a set of books revealing that this person has been using a legitimate business operation to launder money derived from both prostitution and drug dealing. At the time these records are turned over to the local CID office, the taxpayer is already under examination for tax evasion. However, based on the information contained in this second set of books, the Service is able to collect additional taxes and civil penalties in the amount of \$1 million in connection with these illegal activities. The Service will consider that this information substantially contributed to the recovery of \$1 million in taxes with respect to money laundering in connection with illegal drug activities because, even though the taxpayer was already under examination, the information provided by the local police would normally not have been discovered by the Service in the course of an ordinary investigation.

(c) *Application for reimbursement.* An agency that intends to apply for reim-

bursement under the provisions of this section must indicate this intent to the Service at the time the information is first provided to the Service. A final application for reimbursement of expenses must be submitted on Form 211A, State or Local Law Enforcement Application for Reimbursement, to the Chief, Criminal Investigation Division of the Internal Revenue Service district in which the taxpayer is located. Copies of Forms 9061, DAG-71, or other claim for an equitable share of asset forfeitures in the case must also be furnished with Form 211A.

(d) *Time for filing application for reimbursement.* An application for reimbursement may be filed by an agency at the time the information is first provided or as soon as practicable after submitting information to the Service. However, it must be filed not later than 30 days after the Service notifies the agency pursuant to section 7624(b) of the amount of taxes collected as a result of the information provided. If an application for reimbursement is filed by more than one agency with respect to taxes recovered from a taxpayer, the Service will use discretion in determining an equitable amount of reimbursement allocated to each agency based on all relevant factors. In no event, however, shall the aggregate of the amounts paid by the Service to two or more agencies exceed the amount specified in paragraph (e)(3) of this section.

(e) *Amount and payment of reimbursement—(1) De minimis rule.* No reimbursement shall be paid under section 7624 or this section to a State or local law enforcement agency in any case where the taxes recovered total less than \$50,000.

(2) *Taxes recovered.* For purposes of section 7624 and this section, the terms "taxes" recovered and "sum" recovered mean additional Federal taxes, civil penalties, and additions to tax collected (less any subsequent refund to the taxpayer) with respect to illegal drug or related money laundering activities, but not additional interest or criminal fines that may be collected.

(3) *Limitation on reimbursement.* The amount of reimbursement payable under section 7624 and this section

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shall not exceed 10 percent of any taxes recovered.

(4) *No duplicate reimbursement.* A State or local law enforcement agency shall not receive reimbursement under section 7624 or this section for any expenses incurred in the investigation of a taxpayer which have been or will be reimbursed under any other program or arrangement including, but not limited to, Federal or State forfeiture programs, State revenue laws, or Federal and State equitable sharing arrangements.

(5) *Time of payment.* No payment of any reimbursement under this section will be made to a State or local law enforcement agency before the later of final expiration of the applicable period of limitations for filing a claim for refund by the taxpayer of the taxes recovered as provided in subchapter B of chapter 66 of the Code or the determination of the taxpayer's tax liability, as defined in section 1313(a). However, reimbursement may be made earlier but only if the agency provides adequate indemnification against loss by the Service due to a refund to the taxpayer of Federal taxes recovered.

(6) *Applicability.* The provisions of section 7624 apply only to State and local law enforcement agencies within the United States and the District of Columbia.

(f) *Effective date.* This section applies with respect to information first provided to the Service by a State or local law enforcement agency after February 16, 1989.

[T.D. 8255, 54 FR 21054, May 16, 1989, as amended by 57 FR 2840, Jan. 24, 1992. Redesignated by T.D. 8415, 57 FR 15017, Apr. 24, 1992]

SUPERVISION OF OPERATIONS OF CERTAIN MANUFACTURERS

§ 301.7641-1 Supervision of operations of certain manufacturers.

For regulations under section 7641, except the provisions thereof relating to the manufacture of opium suitable for smoking purposes, see subparts E, F, G, and H or part 45 of this chapter (Miscellaneous Stamp Tax Regulations). For regulations relating to the manufacture of opium suitable for smoking purposes, see 26 CFR (1939) 150 (Narcotics Regulations 3, 3 FR 1402) as

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made applicable to section 7641 by Treasury Decision 6091, approved August 16, 1954 (19 FR 5167).

POSSESSIONS

§ 301.7654-1 Coordination of U.S. and Guam individual income taxes.

(a) *Application of section—(1) Scope.* Section 7654 and this section set forth the general procedures to be followed by the Government of the United States and the Government of Guam in the division between the two governments of revenue derived from collections of the income taxes imposed for any taxable year beginning after December 31, 1972, with respect to any individual described in subparagraph (2) of this paragraph (a), and paragraph (e) of this section. To the extent that section 7654 and this section are inconsistent with the provisions of section 30 of the Organic Act of Guam (48 U.S.C. 1421h), relating to duties and taxes to be covered into the treasury of Guam and held in account for the Government of Guam, such section 30 is superseded.

(2) *Individuals covered.* Paragraph (b) of this section applies only to an individual who, for a taxable year, is described in paragraph (a)(2) of § 1.935-1 of this chapter (Income Tax Regulations) and has (or in the case of a joint return, such individual and his spouse have)—

(i) Adjusted gross income of \$50,000 or more, and

(ii) Gross income of \$5,000 or more from sources within the jurisdiction (either the United States or Guam) other than the jurisdiction with which the individual is required to file his income tax return under paragraph (b) of § 1.935-1 of this chapter.

For the determination of gross income and adjusted gross income see sections 61 and 62, and the regulations thereunder, or, when applicable, the corresponding provisions as made applicable in Guam by the Guam Territorial income tax (48 U.S.C. 1421i). For purposes of this paragraph, gross income consisting of compensation for military or naval service shall be taken into account notwithstanding section 514 of the Soldiers' and Sailors' Civil Relief Act of 1940 (50 App. U.S.C. 574).